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FOLLOWING ISLAMABAD 8108 SENT ACTION SECSTATE INFO NEW DELHI
DACCA MANILA OECD PARIS KARACHI LAHORE SEPT 20, 1973 REPEATED TO
YOU QUOTE

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PASS AGRICULTURE

PASS TREASURY

MANILA FOR USADB

E.O. 11652: ADS 9/17/75

TAGS: EGEN, EAID, PK, SWEL, ETRD, EAGR

SUBJ: PAKISTAN IMPORT POLICY REVISIONS AFTER-FLOOD

REF: A) ISLAMABAD 5353 B) ISLAMABAD 7981

1. SUMMARY: PRIMIN ON THE EVE OF HIS U.S. VISIT ANNOUNCED
IN ADDITION TO SELF-HELP TAX MEASURES (REF B) A REVISION OF IMPORT
POLICY. CHANGE REQUIRES IMPORTS OF 10 MAJOR CATEGORIES OF GOODS
TO BE FINANCED BY AID OR BARTER. MOST IMPORTANT ITEMS AFFECTED
ARE TIRES AND TUBES, DRY CELL BATTERIES, REFRIGERATOR COMPONENTS
AND TOILET GOODS. WE ESTIMATE AS MUCH AS \$18 MILLION IN IMPORTS
COULD BE SHIFTED FROM FREE FX FINANCING TO PROCUREMENT FROM TIED
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SOURCES. THIS CHANGE WHILE STEP BACK FROM IMPORT LIBERALIZATION

OF RECENT YEARS, STILL LEAVES IMPORT REGIME MUCH MORE LIBERAL THAN FY 72. END SUMMARY.

2. PRIMIN SEPTEMBER 15 ANNOUNCED GOP DECISION (REF B) TO REVISE IMPORT POLICY ANNOUNCED LAST JUNE AT START OF CURRENT FISCAL YEAR (REF A). REASON GIVEN FOR REVISION IS TO REDUCE DRAWDOWN ON PAKISTAN'S FREE FOREIGN EXCHANGE RESOURCES, AS LARGE FLOOD RELIEF IMPORTS INCLUDING FOODGRAINS, FERTILIZERS, AND POL ARE REQUIRED FOR WHICH CONCESSIONAL FINANCING NOT AVAILABLE IN AMOUNTS REQUIRED. OUR ROUGH AND PRELIMINARY ESTIMATES THESE ADDITIONAL FLOOD RELATED IMPORT REQUIREMENTS TOTAL OVER \$100 MILLION.

3. SIMULTANEOUSLY COMMERCE MINISTRY ANNOUNCED THAT IMPORTS OF TEN CATEGORIES OF IMPORTS WOULD NOW BE PLACED ON TIED LIST. GOODS ON TIED LIST CAN BE BROUGHT IN ONLY WITH AID FINANCING OR FROM SOURCES WHICH HAVE BARTER TRADE AGREEMENTS WITH PAKISTAN.

4. COMMODITIES AFFECTED ARE: A) ACCUMULATORS AND BATTERIES, B) DRY CELL BATTERIES, C) ELECTRIC LIGHT BULBS, D) KNITTING WOOL, E) RAZORS AND RAZOR SETS, F) RAZOR BLADES, G) REFRIGERATOR COMPONENTS, H) RUBBER MANUFACTURES (EXCEPT HOT WATER BOTTLES), I) ASSORTED TOILETRIES AND SOAPS AND J) TIRES AND TUBES OF ALL SORTS. ALL THESE ITEMS EXCEPT DRY CELL BATTERIES HAVE BEEN ELIGIBLE FOR GENERAL IMPORT ONLY SINCE JUNE (REF A). BEFORE THEN, WITH EXCEPTION OF CERTAIN SEIZES OF TIRES AND TUBES, THEY WERE PROHIBITED IMPORTS.

5. DURING FIRST TWO MONTHS OF CURRENT FY IMPORT LICENSING FOR THESE COMMODITIES ZOTALED \$3.75 MILLION EQUIVALENT TO ANNUAL RATE OF \$23 MILLION. THIS COMPARES WITH EARLIER, TENTATIVE PROJECTIONS OF ANNUAL IMPORTS IN THESE CATEGORIES OF ABOUT \$8 MILLION.

6 THE ACTION FOLLOWS EARLIER ANNOUNCEMENT OF BAN ON RAW COTTON EXPORTS AND INFORMAL BUT REAL CUTOFF OF ALL EXPORTS COARSE RICE NOT FIRMLY CONTRACTED. GOP INTENDS TO RESTRICT CONSUMPTION OF HIGHER QUALITY LUXURY (BASMATI) RICE AND PUSH ITS EXPORT. COTTON EXPORT EMBARGO ANNOUNCED AS TEMPORARY UNTIL DAMAGE LIMITED OFFICIAL USE

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FULLY ASSESSED.

7. TWO EMBARGOED COMMODITIES COMPRISED 24 PERCENT OF VALUE ALL PAKISTAN'S EXPORTS LAST YEAR WHEN THEY WERE STILL BEING EXPORTED AT SUBSTANTIALLY BELOW CURRENT WORLD PRICES. RESTRICTION ON CONSUMPTION BASMATI RICE WILL BE IMPLEMENTED BY HIGH GOVERNMENT PROCUREMENT PRICE (WHICH DRAWS MARKET SUPPLIES TO GOVERNMENT STOCK) AND HIGH GOVERNMENT ISSUE PRICE. TO MAKE THIS POLICY

EFFECTIVE, WE EXPECT GOP TO ANNOUNCE INCREASE IN PROCUREMENT PRICE ABOVE CURRENT RPS 62/MAUND (EQUIVALENT \$168/MT), EVEN THOUGH CURRENT PRICE ALREADY AT HEIGHT UNPRECEDENTED IN PAKIST.

8 COMMENT: THE NEW LIMITED RESTRICTION OF IMPORTS FOLLOWS CONSIDERABLE INTERNAL GOP DISCUSSION IN RECENT WEEKS ABOUT WAYS TO CONSERVE FREE FOREIGN EXCHANGE FOR ESSENTIAL IMPORTS. THE EXISTENCE OF SUBSTANTIAL UK AND FRG CREDITS (WHICH NOT MOVING RAPIDLY DESPITE HIGH RATE OF INFLATION) WAS IMPORTANT IN DECISION. PROBABLY, EVEN MORE IMPORTANT IS UNDERUTILIZATION EASTERN EUROPEAN, CHINESE AND NORTH KOREAN BARTER AGREEMENTS. THESE ARE ADMINISTERED BY TRADING CORPORATION OF PAKISTAN (STATE TRADING CORPORATION) AND BECAUSE OF EXTRA COST AVOIDED BY IMPORTERS WHEN FREE MARKET FOREX AVAILABLE.

9 THESE EMERGENCY MEASURES REPRESENT SOME BACKSLIDING IN THE LIBERALIZATION OF PAKISTAN'S TRADE WHICH BOTH RATIONAL MARKET PRICING AND THE DAMPENING OF INFLATION REQUIRE. HIGH LEVEL OF URBAN MONEY INCOMES WILL SUPPORT DEMAND THESE ESSENTIALLY URBAN COMMODITIES EVEN AT HIGH PRICES. GOP EXPECTS THAT CHANNELLING OF IMPORTS THROUGH STATE TRADING CORPORATION WILL MOVE PROFITS INTO STATE REVENUES AND HELP DAMPEN INFLATION. DECONTROL 9/17/75 SANDERHOFF UNQUOTE RUSH

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